

**BEFORE THE SOUTH CAROLINA PUBLIC SERVICE COMMISSION**

**DOCKET NO. 2018-319-E**

**SURREBUTTAL TESTIMONY**

**OF**

**KEVIN W. O'DONNELL, CFA**

**ON BEHALF OF THE**

**SOUTH CAROLINA ENERGY USERS COMMITTEE**

**March 19, 2019**

1   **Q.     PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS**  
2   **FOR THE RECORD.**

3   A.    My name is Kevin W. O'Donnell. I am President of Nova Energy Consultants,  
4        Inc. My business address is 1350 Maynard Rd., Suite 101, Cary, North Carolina  
5        27511.  
6

7   **Q.     ON WHOSE BEHALF ARE YOU PRESENTING TESTIMONY IN THIS**  
8   **PROCEEDING?**

9   A.    I am testifying on behalf of the South Carolina Energy Users Committee  
10        (SCEUC). A number of SCEUC members take retail electric service from the  
11        applicant, Duke Energy Carolinas (DEC, Duke, or Company), and the outcome  
12        of this proceeding will have a direct bearing on these SCEUC members.  
13

14   **Q.     DID YOU PREVIOUSLY SUBMIT PRE-FILED DIRECT TESTIMONY IN**  
15   **THIS CASE?**

16   A.    Yes. On February 26, 2019, I submitted prefiled direct testimony in this  
17        proceeding.  
18

19   **Q.     WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN**  
20   **THIS PROCEEDING?**

21   A.    The purpose in this surrebuttal testimony is to address the rebuttal testimonies of  
22        Wright, Kerin, and Pirro.  
23

24   **Q.     WITH WHAT AREAS OF MR. KERIN'S REBUTTAL TESTIMONY DO**  
25   **YOU DISAGREE?**

26   A.    I disagree with Mr. Kerin's characterization of the coal ash cost comparison  
27        analysis I performed in this case as well as his mistaken belief that costs related  
28        to CAMA are not more stringent than cost related to the federally-mandated CCR  
29        rules.

1   **Q.   PLEASE EXPLAIN YOUR DISAGREEMENT WITH MR. KERIN'S**  
 2   **COMMENTS IN REGARD TO YOUR COAL ASH COST COMPARISON.**

3   A.   Mr. Kerin believes the Commission should not compare the coal ash costs of Duke  
 4   relative to the same costs of other utilities. Apparently, Mr. Kerin wants this  
 5   Commission to blindly accept Duke's position that its costs are reasonable in  
 6   relation to other utilities. Mr. Kerin's position is antithetical to the concept of  
 7   utility regulation.

8  
 9   I have appeared as a witness on the matter of rate of return in states around the  
 10   country for over 33 years. Most, if not all, rate of return witnesses provide a  
 11   discussion of the *Federal Power Commission v. Hope Natural Gas Company*, 320  
 12   U.S. 591 (1944) case. Indeed, in this case, Company Witness Hevert cited the  
 13   above-stated Hope case in his prefiled testimony. Mr. Hevert, like myself,  
 14   recognizes the need for comparisons in determining the accuracy of cost  
 15   estimates. In his prefiled testimony, Mr. Hevert states:

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As discussed above, and in keeping with the Hope and Bluefield  
 standards, that return should be commensurate with the returns  
 expected elsewhere in the market for investments of equivalent  
 risk.<sup>1</sup>

22   In this case, Mr. Hevert used a comparable group of companies to help develop  
 23   his return on equity recommendation. Mr. Kerin, on the other hand, does not  
 24   believe any such comparisons should be made in regard to coal ash costs. I  
 25   disagree. DEC's costs are grossly out-of-line in relation to coal ash costs of other  
 26   utilities across the country. This evidence is relevant to the question of Duke's  
 27   excessive coal ash cost recovery as I demonstrated in my prefiled direct testimony

28

29   **Q.   HOW DO YOU RESPOND TO THE STATEMENTS FROM MR. KERIN**  
 30   **AND DR. WRIGHT THAT THE COSTS FROM NORTH CAROLINA'S**

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<sup>1</sup> Hevert prefiled direct testimony, p. 11

**CAMA LEGISLATION ARE NOT HIGHER THEN THE FEDERALLY  
MANDATED CCR RULE?**

A. The statements of Mr. Kerin and Dr. Wright conflict with statements from other Duke officials that have admitted CAMA costs are higher than CCR costs. On May 24, 2016, Utility Dive published a story entitled “Two years after EPA's coal ash rule, progress depends on states”. Below is a portion of that article.

Duke Energy, the state's major investor-owned utility, has a total of 150 million tons of ash at its 14 coal plants in North Carolina. Mark McIntire, director of environmental policy at Duke, told Utility Dive the company faces more stringent standards from the CAMA rather than the federal regulation.

“The NC law came before the CCR [rule],” he said. “We find that NC CAMA that is specific to NC is generally driving decision making on a management perspective on coal ash ... From a comparison perspective the CAMA is generally a good bit more stringent.”<sup>2</sup> (underline added)

Obviously, Duke’s director of environmental policy, Mark McEntire, disagrees with Mr. Kerin and Dr. Wright in this case. The Commission needs and deserves a straight answer from Duke.

**Q. HOW DO YOU RESPOND TO THE POSITION OF MR. PIRRO  
REGARDING REAL-TIME PRICING RATES?**

A. The fact that Duke’s hourly pricing rates are higher than market rates is a reflection on Duke’s regulated rates being above market costs. While I agree with Mr. Pirro that Duke’s RTP rates are marginal rates based on the Duke system production costs, I disagree with Mr. Pirro that Duke should not offer its large customers the lower of market costs or Duke’s hourly costs. As I demonstrated in my testimony, DEC’s rates are trending in the wrong direction. Given Duke management’s decision on future rate hikes to fund its grid plan and drive

<sup>2</sup> <https://www.utilitydive.com/news/two-years-after-epas-coal-ash-rule-progress-depends-on-states/419672/>, May 24, 2016

1 earnings, Duke's rates may soon become a liability for manufacturers. Since  
2 Duke's prices are based on marginal costs, meaning that Duke's hourly pricing  
3 depends on the last kWh produced at a given time in the day, there is no reason  
4 why my recommendation cannot, and should not, be implemented by Duke. Duke  
5 can simply ramp down its higher cost plants on an hourly basis and buy its hourly  
6 loads in the open marketplace, thereby passing on the savings to its customers.

7  
8 As set out in my direct testimony, the RTP rate I recommend has no adverse rate  
9 impact on any other customer class and has no negative impact on Duke's  
10 profitability.

11  
12 While Duke's President Kodwo Gartey-Tagoe promotes economic development  
13 in his prefiled testimony,<sup>3</sup> the Company's unwillingness to create job retention  
14 opportunities for its largest customers is highly frustrating. The purpose in my  
15 testimony is to recommend an RTP rate structure that will lower industrial costs  
16 and, in so doing, increase manufacturing demand for Duke's product and keep  
17 manufacturing jobs in the state. Instead of offering to further examine new rate  
18 options, DEC's position is to simply say no. Such a position shows a level of  
19 indifference by Duke that should trouble this Commission.

20  
21 My recommendation in this regard continues to be for this Commission to require  
22 Duke to offer the lower of either the Duke RTP rate OR the market rate as taken  
23 from the Dominion Hub and grossed up for line losses.

24 **Q. DOES THIS CONCLUDE YOUR PREPARED DIRECT TESTIMONY?**

25 **A. Yes.**

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<sup>3</sup> Prefiled testimony of Kodwo Gartey-Tagoe, page 36